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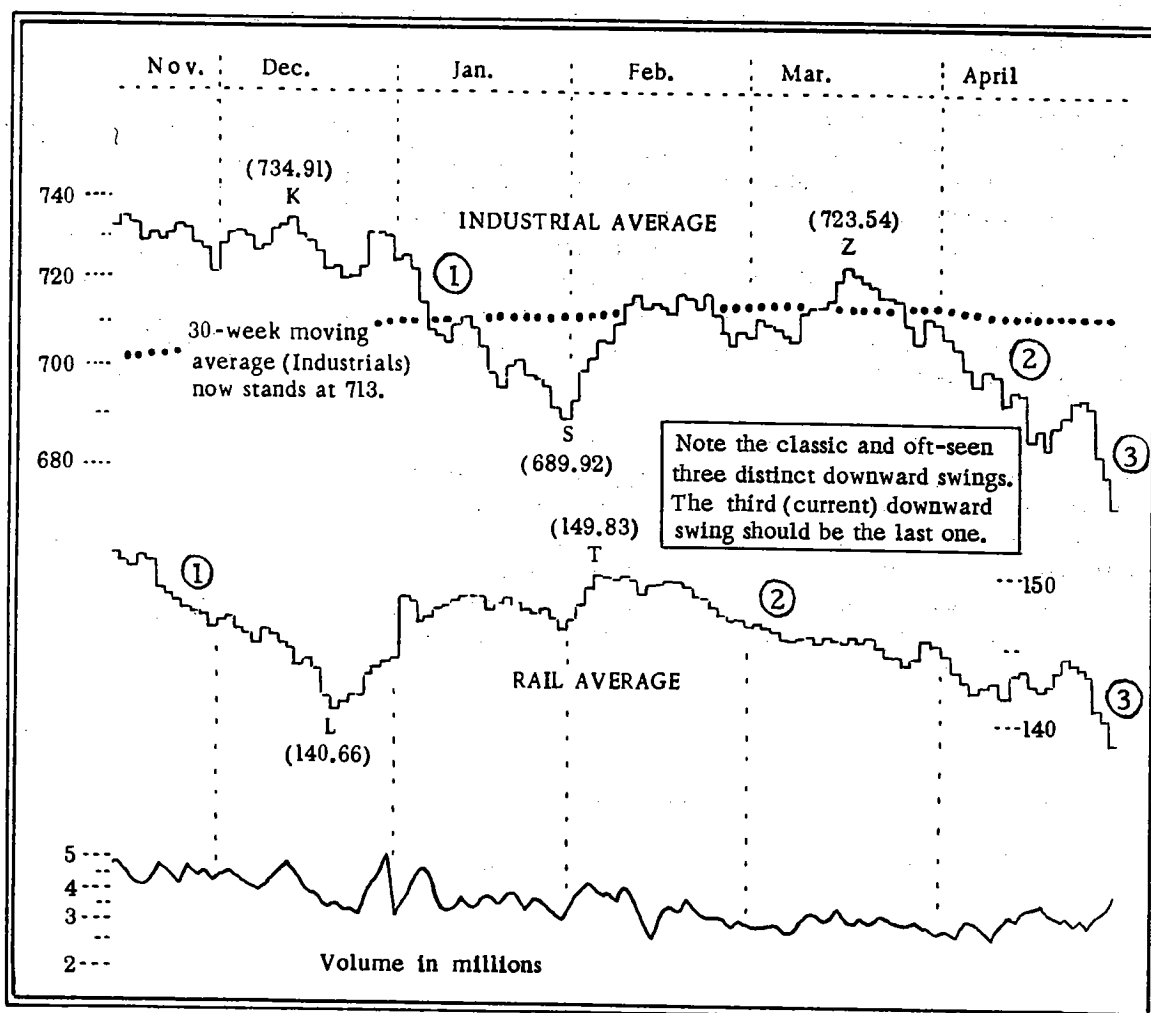
THE MARKET Pages and pages of erudite analysis have flooded the newspapers and periodicals over the past week in an all-out effort to seek the "true meaning" behind the rescinding of the steel price hike, the Kennedy outburst, the visit to the White House by Mr. Blough, the tender reassurances from Mr. Kennedy, the steel profit-squeeze, the end of inflation, etc. I urge subscribers to divorce such news stories from their market thinking. Sensational headlines, while good reading, are not worth a whit when it comes to making money on Wall Street.

Two knowledgeable market students meet. Neither owns a share of stock. They will both buy if the occasion warrants, but they have nothing to lose if they choose to be bearish. As far as the market is concerned, neither has "an axe to grind".

THE BEAR: "This market has had it. You have a 'head-and-shoulders' formation in the Industrials Average; it was broken downside when you penetrated 689.92. The last secondary lows were 689.92 on Industrials and 140.66 on Rails. As of April 26, both lows were violated. This was a bear signal. Volume didn't flare on the downside, but it can always come in later. The selling came in the face of record auto sales, rosy projections for business, and a prosperous economy. Bear markets only occur when the country is flourishing. Gold is now flying out of the country, our President is waving the biggest 'stick' seen since the '30's, and businessmen are looking for the exits. I say we're in a bear market: As far as I'm concerned, every rally is a chance to get out -- if you haven't already. I won't even go into 'values' and yields. You know as well as I that neither exists".

THE BULL: "I'm impressed -- but I don't agree. The banking figures are bullish, the odd-lots have been selling on balance (in a long-term sense) for sixteen months, there has been no price-breadth divergence at the highs (and this has occurred prior to all past bear markets), the magazines are telling me that inflation is over and that the Averages have seen their highs, the public has been thoroughly disillusioned about the market, money is bulging in the banks, and I see nothing that suggests rampant speculation in equities .

"Now let's talk a bit of the actual recent market action. I believe



Page 2 that the current decline will go down as the last decline of this whole downward movement. Volume on the day of the Rail penetration (April 26) was only 3.6 million shares. Volume on the next day was 4.1 million shares, still not particularly impressive. Neither day suggested important liquidation. In 1937 and 1946 volume expanded to double the preceding average volume on the day of the bear signal. So far, we've seen nothing to compare with those days. Furthermore, April 26 brought out 7.6 thousand odd-lot shorts, a whopper by any reckoning. The odd-lot shorts are finally showing that they think the bull market is over. And last week's decline was set off largely by spot news -- thanks to President Kennedy's 'big stick'. The declines that scare me are the ones that occur on no news.

"Moreover", continues the bull, "The Industrials finally confirmed the advance-decline ratio on April 26 -- in every sense of the word. The April 26 Industrial close of 678.68 broke under the July, 1961 low of 679.30. This means that both the advance-decline ratio and the Industrial Average have finally broken into new low ground for the first time since their last confirmed highs in May, 1961. This is the same action that preceded the great advances of 1954-56, 1957-59 and 1960-61. Once again, the 'technical air' has been completely cleared".

"Ah yes, my friend," says the bear, "but what about the recent odd-lot action? The public has been bullish all the way down. Does that suggest the bottom?"

"Not yet," answers the bull. "We need one more thing, a decline that turns the public stone bearish -- one that reverses the odd-lot ratio line back to the selling side. If the next (or current) decline sets off a switch to less odd-lot buying or actual odd-lot selling, we'll be near the bottom. When that happens, brother -- I'm buying."

"But one qualification," the bull adds. "The halfway mark of the whole 1960-61 Industrial advance comes at 650. Every major decline since the late 1940's has stopped above the halfway or 50% level. If Industrials now break decisively below 650, it's my opinion that any buying I do will be buying in a primary bear market. In which case, I'll be a great deal more cautious."

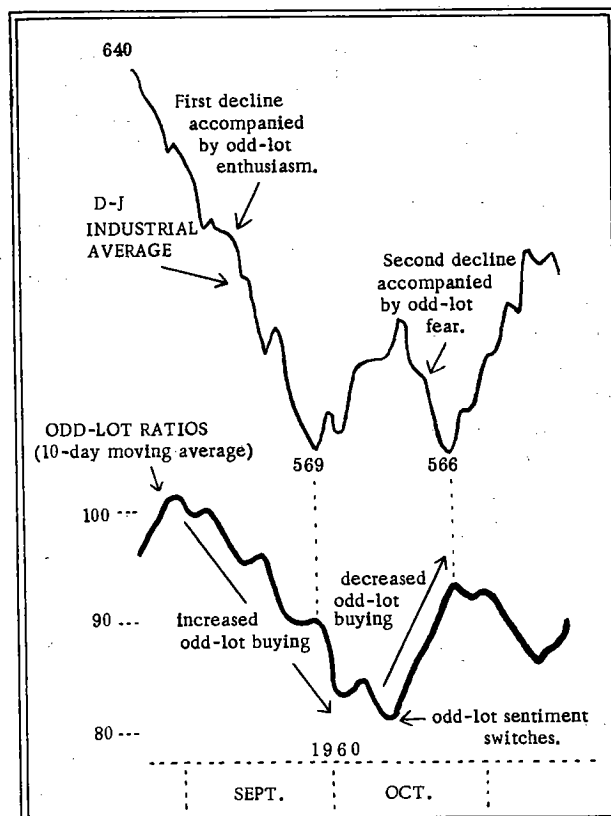
The two friends depart, each having partially influenced the other. This writer, who happened to be listening in, was more impressed with the bull's argument.

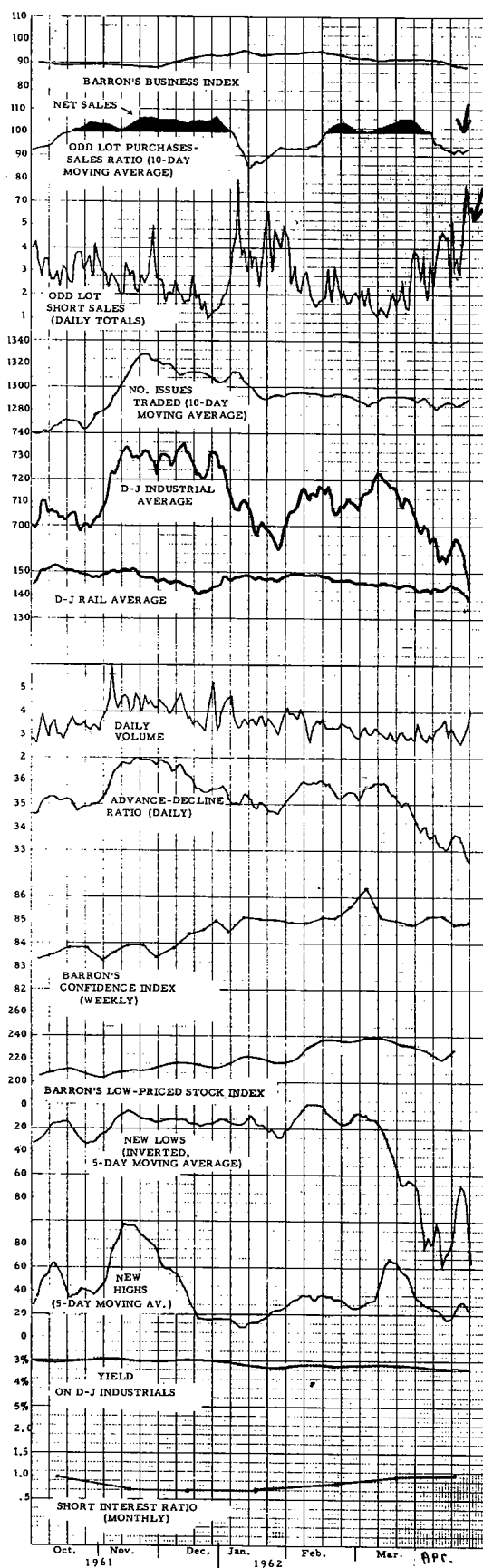
ODD-LOTS In the last Letter I wrote that "...the trend of odd-lots is the thing that bothers me at this time". (See Letter 177, page 2).

I urge subscribers to make every effort to understand the following discussion. As stated in many previous Letters, it is not the actual amount of odd-lot buying or selling that is important -- what is important is a change in odd-lot sentiment! Normally, odd-lotter will decrease buying during a market advance ("higher prices afford opportunities to sell at attractive prices"). Normally, odd-lotter will increase buying during a decline ("lower prices are bargains"). When odd-lot action deviates from the normal, we have a situation worth watching carefully.

One of the most consistent phenomena in technical analysis is the switch in public (odd-lot) sentiment as a true bottom is approached. So consistent is this action, in fact, that "bottoms" not accompanied by a previous switch from odd-lot enthusiasm (buying) to odd-lot fear (selling) are suspect. The reversal consists of a switch in the normal bullish odd-lot sentiment (during a decline) from increasing odd-lot buying to decreased odd-lot buying or actual selling. We might put it another way and say, "If the odd-lotter aren't turning increasingly fearful at the lows, then the chances are we have not seen the true lows".

To illustrate, I have included a chart of the 1960 bottom. On the September market decline it can be seen that the odd-lot ratios moved steadily toward increased buying. When the first (569) bottom was struck in late September, the odd-lotter were actually stepping up their purchases, and the 10-day moving average of odd-lot ratios was moving persistently toward the buying zone.





(Odd-lot ratios are computed by simply dividing daily odd-lot sales by daily odd-lot purchases).

A market rally followed, and half way through the rally the odd-lotters reversed their previous bullish sentiment and moved toward less buying. This produced the sharp upward hook (toward selling) on the odd-lot ratio line (about mid-October -- see chart). A second decline began, and this time the odd-lotters were moving fearfully toward increased selling. Note that the peak of fear came exactly at the 566.05 Industrial bottom in October. This was the true market bottom, a bottom that found the odd-lot public decreasing their buying sharply as prices dropped. The normal bullish sentiment which had accompanied the first (September) decline had evaporated during the second (October) decline. Thus the public was bullish (and wrong) at the September bottom; the public was bearish (and wrong) at the true October bottom.

The most recent instance of a market decline and an odd-lot reversal in sentiment (with accompanying "buy-spot") can be seen on the indicator chart (this page). Industrials turned down early in January, and the odd-lotters reacted normally; they stepped up their purchases as the decline progressed (note the steady drop toward buying in the ratio line). Then, in late January, the odd-lot ratio line turned up on January 16 (toward the sell side) as Industrials continued to slide. Lower prices had finally frightened the odd-lotters, and they were wrong in their sentiment as the market touched bottom on January 26.

Now, study the most recent action of the Industrials and the odd-lot ratio line. From a March 28 selling peak of 106 (106 shares sold for every 100 bought), odd-lotters moved steadily toward the buy side as the market declined. Last week (April 25) the ratio touched a buying peak of 91.4 (100 shares bought for every 91.4 shares sold). Up to April 25 odd-lotters have been confident that the decline was producing "bargain prices", and consequently, they bought with increasing enthusiasm.

What is now needed is a movement wherein (1) Industrials decline, and (2) odd-lotters reverse their sentiment and decrease their buying in the face of the decline. Remarkably, there is usually a period of six days, during which the odd-lot ratio line rises (toward selling) as the market declines, prior to the final bottom. Such action could come on a decline following the next rally or it could come from lower levels on the Industrial Average. Often, the reversal in sentiment comes during the first rally from a "scare" or "panic" bottom. Following the rally, on the second approach to the panic-bottom, the odd-lotters will grow even more fearful (higher selling ratios) and the final lows are recorded within a few percentage points of the first scare-bottom. At other times, the switch in sentiment will occur during a continued straight-line decline to new lows on the Averages.

CONCLUSION: Odd-lot ratios now deserve the closest scrutiny. So far, no decline has produced a definite switch in sentiment. This writer suspects, however, that the next (or current) decline will do just that. (My thanks to Mr. Garfield Drew for both his pioneering work and his statistics regarding the odd-lot studies).

INDICATORS (see chart on page 3). (1) The odd-lot ratio line turned slightly higher on April 26, but as yet has shown no marked rise (on a 10-day average basis) toward less buying or more selling. Most major bottoms are accompanied by a sharp rise towards the selling side in this line (in the face of a final Industrial decline). (2) Odd-lot shorts boomed on April 26 and April 30 to 7.6 and 6.6 thousand shares respectively. This action, however, should be accompanied by the phenomenon outlined in number (1) above. (3) The advance-decline ratio has broken to a new 1961-62 low along with the Industrial Average. This is not unusual, and the same thing occurred at the end of the 1960 decline. (4) Except for an upward "blip" at the end of February, the Confidence Index has held within a remarkably narrow line for four months. In view of what has happened, we cannot give the C.I. a gold star for this performance. (5) The five-day average of new lows touched 139 on Friday, April 27. This was the exact figures struck on April 13. (6) As seen near the bottom of chart, "yields are rallying" on common stocks (sic). In all, the indicators look bad, but are probably within a week or so of looking their worst.

STOCKS As of April 26, approximately two-thirds of all the stocks on the N. Y. Stock Exchange were in bearish trends. The bearish percentage seldom extends beyond 80%.

Of the 30 Industrials stocks making up the D. J. I. Average, thirteen are now classified as bullish. These thirteen stocks are listed and in parentheses are the figures which, if touched, will change each classification to bearish. These are the stocks which (as long as they hold bullish) are considered safest for purchase on a reversal. Alcoa (57), American Can (42), Eastman Kodak (100), General Motors (52), International Harvester (48), International Paper (33), Owens-Illinois Glass (86), Sears-Roebuck (79), Standard of California (52), Standard of Jersey (51), Swift (38), Texaco (52), United Aircraft (44). The strongest ratings in this bullish group are given to Amer. Can, General Motors, Standard of Calif., Standard of Jersey, Sears-Roebuck, United Aircraft.

Celanese, recommended earlier, illustrated the action of strong stocks during a sweeping decline. Note CZ breaking with the market in early April. A rally then lifted the stock well off its lows as its relative strength line climbed to a new high (the stock was far outperforming the market). The next sweeping market decline was not able to take CZ below its preceding low. The stock is strong, and will not give a bearish reversal signal unless it touches 38.

One of the really impressive charts on the "Big Board" is Standard of California. Note the huge base out of which the stock has risen; note also the way it has held on all the 1962 weakness. Its relative strength line is now at a peak, and I list the stock as a buy when the market reverses.

Charts courtesy of Traders Research, P. O. Box 2644, St. Louis 16, Mo.

Written Monday April 30, 12:00 noon New York time.

